

Division of Securities
Utah Department of Commerce
160 East 300 South
P.O. Box 146760
Salt Lake City, Utah 84114-6760
Telephone: 801 530-6600
Facsimile: 801 530-6980

**BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH**

IN THE MATTER OF:

KARON C. COOK, CRD #1036029;

Respondent

**STIPULATION AND CONSENT
ORDER**

Docket No. SD-05-0060

The Utah Division of Securities ("Division"), by and through its Director of Licensing, George Robison, and Karon C. Cook, CRD #1036029 ("Cook") hereby stipulate and agree as follows:

1. Cook was the subject of an examination conducted by the Division into allegations that she violated the Utah Uniform Securities Act ("Act"), Utah Code Ann. § 61-1-1, *et seq.*
2. On September 19, 2005, the Division filed a Petition for Order Revoking License and/or Barring Licensee against Cook.
3. In lieu of proceeding with the formal action, Cook and the Division have agreed to settle

this matter by way of this Stipulation and Consent Order (“Order”). If entered, the Order will fully resolve all claims the Division has against Cook pertaining to this matter.

4. Cook admits the jurisdiction of the Division over Cook and over the subject matter of this action.
5. Cook waives any right to a hearing to challenge the Division’s evidence and present evidence on Cook’s behalf.
6. Cook has read the Order, understands its contents and submits to this Order voluntarily. No promises or threats have been made by the Division, nor by any representative of the Division, to induce Cook to enter into this Order, other than as described in this Order.
7. Cook has been advised of her right to be represented by counsel and has chosen to represent herself.

I. FINDINGS OF FACT

The Division makes the following findings:

Background

8. Cook is not currently licensed in any jurisdiction as a broker-dealer agent, but was associated with Raymond James Financial Services, Inc. (“RJFS”) as a broker-dealer agent and general securities principal from January 1989 through February 2005.
9. Cook failed to disclose certain outside business activities to RJFS and consequently was terminated from RJFS in February 2005.

10. Cook has taken and passed the Series 7, General Securities Representative Examination; the Series 24, General Securities Principal Examination; the Series 63, Uniform Securities Agent State Law Examination; and the Series 65, Uniform Investment Adviser State Law Examination.
11. On February 2, 2005, M.W. filed a complaint with the Division alleging that Cook had sold him promissory notes.
12. The Division's examination into M.W.'s complaint revealed that while employed by RJFS, Cook brokered loans for RJFS clients, borrowed money from a client, acted as an unlicensed investment adviser, and served as a trustee for client accounts, without disclosing such activities or obtaining the prior approval of RJFS. Cook also filed false documents with the Division.

Unregistered Securities

13. In the mid to late nineties, Cook approached a client, M.W., about entering into some loan transactions, and on five separate occasions brokered loans between M.W. and other clients of Cook.
14. The five loans were made in the late nineties and early 2000. Cook represented to M.W. that the loans were all secured by real estate. Cook did not provide documentation of these loans to M.W. but two of the loans were used for mortgages for C. and G. A. (\$63,800) and N.W. (\$33,000).

15. A sixth loan transaction in the amount of \$50,000 was completed on July 10, 2000 and was signed by Cook as president for The Financial Resource Group, Inc. ("Financial Resource Group").
16. Cook led M.W. to believe that the sixth loan was a loan to her personally. M.W. stated he later discovered that Cook lent the money from the sixth loan to other people. A promissory note memorializing the loan showed that this loan was not secured.
17. On April 30, 2002 M.W. and Cook entered into an "operating partnership with regard to the \$307,000 of secured loans held by '[W] Family Trust 2'" ("Family Trust"). Some of the five loans M.W. made through Cook were included in this \$307,000 amount. The operating agreement was signed by M.W. and Cook. The agreement states that "these loans are represented to be (original value): [C. and G. A.] (mortgage) \$63,800; [N. W.] (mortgage) \$33,000; Financial Resource Group (note) \$50,000; [D. M.] (note) \$150,000." The agreement further stated that "Karon guarantees to: Bring all loans current by Oct. 31, 2002 [and] Refinance [C. and G.A.] & [N.W.] by Oct. 31, 2002."
18. The operating agreement also stated that "[M.W.] guarantees to: Pay a performance fee of \$7,000 to Karon upon signing this agreement; Will assume 2nd mortgages for any outstanding balances that may occur after refinancing; Interest rates on 2nd mortgages assumed by [Family Trust] will be determined by Karon Cook; [M.W.] & Karon will divide the interest income in half on the [C. and G.A.] and [N.W.] loans should a 2nd

- mortgage occur after refinancing; [and] [M.W.] & Karon will divide the principal of all the [C. and G. A.] and [N.W.] loans should a 2nd mortgage occur after refinancing.”
19. According to M.W., the \$150,000 note attributed to D. M. is not a loan that Cook brokered. Apparently, this was a separate loan between D.M. and M.W. M.W. also stated that the \$7,000 “performance fee” he paid to Cook was for her to take the time to attempt collection of M.W.’s other past loans that Cook brokered.
 20. On November 8, 2002, M.W. and Cook signed a handwritten promissory note for \$113,800. This note was a re-issuance of the \$50,000 note dated July 10, 2000 and the \$63,800 C. and G.A. debt from the Family Trust operating agreement. The promissory note evidences that this note was not secured.
 21. On January 14, 2003, Cook sent M.W. an update on the C. and G.A. refinance along with amortization schedules and other transaction reports for the original C. and G.A. loan transaction, which occurred on or about December 21, 1999.
 22. The transaction reports show that Cook, through Cook & Associates, and M.W. were splitting the C. and G.A. payments.
 23. Cook never registered or notice-filed any of the transactions discussed above with the Division.

Selling Away¹

24. Cook engaged in securities transactions outside the control and supervision of her broker-dealer and without giving notice of those securities transactions to her broker-dealer.

These transactions included:

- a. Issuing at least two promissory notes to M.W. and taking \$50,000 from M.W. for those notes;
 - b. Selling an investment contract in the form of an operating agreement to the Family Trust;
 - c. Writing two checks from the Family Trust account in the amounts of \$15,027 and \$2,500 and sending them to an account at ACAP Financial, a broker-dealer unrelated to RJFS, which moneys were used to purchase securities.
25. RJFS's annual compliance questionnaires and certification pages signed by Cook require a financial advisor ("FA") to acknowledge that the FA understands she cannot engage in private securities transactions without prior written approval of an officer of RJFS, cannot hold out any name other than RJFS as offering securities, and that the FA has read and understands the RJFS compliance manual.

¹Selling away is the act of effecting securities transactions that are not recorded on the regular books or records of an agent's broker-dealer (i.e., the transaction is executed outside or away from the broker-dealer). If a broker-dealer agent is engaged in selling away, the broker-dealer is unable to properly monitor and supervise these activities to ensure compliance with applicable securities laws.

26. The questionnaires specifically define the term “security” as including promissory notes.
27. If a question is answered in the negative, the FA is required to provide an explanation on the certification page. RJFS indicated that if no explanation was given as required to a “no” answer, the question was considered to be answered in the affirmative.
28. None of Cook’s certification pages have explanations for a “no” answer to the questions concerning engaging in private securities transactions without prior approval of the firm. Thus, Cook answered in the affirmative that she understood she could not engage in any private securities transaction without prior written approval of an officer of RJFS and she had to transact all securities business through RJFS, unless acknowledged and agreed upon by RJFS.
29. In a letter dated June 9, 2005, RJFS confirmed to the Division that Cook “was not approved for any private securities transactions, nor did she request approval to do so.”

Borrowing From A Client

30. On July 10, 2000, Cook, as president for Financial Resource Group, borrowed \$50,000 from M.W., evidenced by a promissory note. On November 8, 2002, Cook and M.W. signed a handwritten promissory note for \$113,800, which included a renewal of the \$50,000 amount.
31. At the time these notes were signed, M.W. was one of Cook’s clients at RJFS.

32. RJFS's annual compliance questionnaires and signed certification pages required Cook to acknowledge that she understood she was not permitted to loan, borrow or co-invest with a client without firm approval.
33. None of Cook's certification pages have explanations for a "no" answer to the question that she understood she was not to borrow money from a client. Thus, Cook answered in the affirmative that she understood she was not permitted to borrow from a client without written approval of an RJFS executive officer.
34. In a letter dated June 9, 2005, RJFS stated to the Division that Cook "was not approved to participate in any loans, either as lender or borrower, nor did she request approval to do so."

Custody

35. On April 19, 2001, an updated *New Account Form* was completed for the Family Trust account. This form was updated to list Cook and M.W.'s uncle, L.W. as trustees of the Family Trust.
36. The updated *New Account Form* shows a signature for Cook (as client and as financial advisor) and L.W.
37. On April 19, 2001, an updated *Elite Investment Account Application* also was completed for the Family Trust. This form was updated to list Cook as the trustee of the Family Trust. The form is signed by Cook as both account owner and financial advisor.

38. On October 22, 2001, a new *Trustee Certification* form was completed. This certification form lists Cook and L.W. as the trustees on the Family Trust.
39. The form also indicates account statements should only be sent to Cook. The form is signed by Cook and L.W.
40. The Division obtained copies of certain checks written on the Family Trust account. In at least four instances, Cook, and only Cook, signed checks withdrawing funds from the account.
41. A review of Cook's Utah client list provided by RJFS showed that in addition to being a trustee on the Family Trust account, Cook was listed as the trustee on three other client accounts: the J. T. account, the E.C. account, and the J. P. Family account.
42. RJFS's annual compliance questionnaires and signed certification pages required Cook to indicate that she understood:
 - a) she could not act as a custodian of securities, stock powers, money, or other property belonging to a client;
 - b) she could not act in a custodial or trustee capacity for a person who was not a family member unless specific approval was given by an executive officer of the firm; and
 - c) that all client accounts, securities and funds had to remain segregated at all times from any account that she owned or over which she had control.

43. Other than a 1998 certification page, Cook answered no to the above questions and provided no explanation as to why she answered no. Thus, Cook answered in the affirmative that she understood she could not act as a custodian of securities, stock, money, or any other property belonging to a client (other than immediate family), she could not act in a custodial, trustee, or executor capacity for a person who was not a family member unless specific approval were given by an executive officer of the firm, and all client accounts, securities, and funds had to remain segregated at all times from any account that she owned or over which she had control.
44. In addition, RJFS's compliance manual specifically prohibits a financial advisor from acting as a trustee, co-trustee, successor trustee, executor of an estate, or exercising power of attorney for a client unless specific approval has been obtained from an executive officer of the firm.
45. In a letter dated June 29, 2005, RJFS stated to the Division "...neither the compliance department nor any officer of the firm received notification or request for approval for Ms. Cook to act as trustee on any of her client's [sic] accounts. As such, no approval from the compliance department or any officer of the firm was obtained.

Outside Business Activities

46. RJFS provided copies of two outside business activity forms that Cook had submitted to the firm.

47. The first outside business activity form stated that Cook was requesting approval “to continue an existing outside activity relationship...Effective since 6/1/84.” Cook indicated that the company’s name was Grasco Properties and the nature of the business was “real estate management.” Cook listed herself as the president of this company.
48. The second outside business activity form stated that Cook was requesting “to continue an existing outside activity relationship...Effective since 5/1/87.” Cook indicated that the company’s name was Focus Publications and the nature of the business was “software development and forms.” Cook listed herself as the president of this company.
49. Cook was in fact, however, involved in at least seven other businesses while employed at RJFS, including Financial Resource Group, Cook & Associates Financial Services, GMT Investments, Hilow Corporation, MK Enterprises, Blue Heron Enterprises, and Ibis Enterprises.
50. On a 2001 Satellite Office Checklist, Cook indicated she also was involved with helping Drake University create insurance exams for the state of Utah. Additionally, Cook’s Form U4² disclosed Cook was a 25% interest owner of two fourplexes.
51. In addition to Grasco Properties and Focus Publications, RJFS was aware of four of the above business activities: Financial Resource Group; Cook & Associates; Drake

²The Form U4, Uniform Application for Securities Industry Registration or Transfer, is a document used to apply for a license as a securities agent. The document is filed with the Division and also provided to RJFS.

University; and the fourplex ownership. However, RJFS was unable to provide *Request to Engage in Outside Activity* forms for these four outside business activities.

52. Pursuant to RJFS's annual compliance questionnaires and signed certification pages, Cook was required to acknowledge that she understood her obligation to disclose all outside business activities, and obtain approval from the compliance department for such activities, and also amend her Form U4 when any information changed regarding her outside business activities.
53. Cook's certification page for the 2004 questionnaire indicates that she answered "no" to the question of whether she knew she was required to get firm approval for her outside business activities. Cook's explanation to the Division for her answer was "we have attempted to get info from prior branch on all forms on file. RJFS is helping us with what outside business activities have been approved."
54. None of the other certification pages have explanations for a "no" answer to the above questions. Thus, with the exception of her "no" answer to question 2 on the 2004 questionnaire, Cook answered in the affirmative that she understood that she had an ongoing legal obligation to amend her Form U4 when her outside business activity information changed, and that she had disclosed all outside business activities and received RJFS's approval for each outside business activity.

55. RJFS's compliance manual also specifically stated that all outside business activities had to be disclosed and approved by the branch manager and the compliance department in writing.

False Form U4

56. As stated above, Cook had been involved in at least 11 outside business activities during her employment with RJFS. At the time of Cook's termination from RJFS in February 2005, the only outside business activity disclosed on Cook's Form U4 was her ownership in the two fourplexes.
57. Cook filed for bankruptcy on February 28, 1991, approximately two years after Cook became employed with RJFS. Cook's debts were discharged on August 5, 1991 and the case was closed on February 6, 1992.
58. A bankruptcy is required to be disclosed on the Central Registration Depository (CRD) if it occurred within the past 10 years prior to the CRD filing. The disclosure summaries on Cook's CRD record show no past or current disclosure of any bankruptcy. Despite her obligation to report the bankruptcy, Cook failed to do so.

Unlicensed Investment Adviser

59. Among records maintained by RJFS, an April 1, 2002 Satellite Office Checklist contained a copy of Cook's business card that listed Cook and/or Cook & Associates as a "Registered Investment Advisor."

60. A November 2004 Satellite Office Checklist contained a copy of a Yellow Page listing in which Cook & Associates was listed under “Financial Planning Consultants.”
61. RJFS was licensed as a state-covered investment adviser from June 14, 1991 through December 31, 1996. RJFS was registered as a federal covered investment adviser from April 21, 1997 through at least 2002. During these time periods, Cook was not licensed with RJFS as an investment adviser representative.
62. In response to RJFS’s annual compliance questionnaires regarding licensing requirements, Cook answered in the affirmative that she understood that if she was charging clients fees for investment advice and/or holding herself out as a financial planner and receiving commissions or fees, she was required to license as an investment adviser or investment adviser representative.
63. Furthermore, Cook answered in the affirmative that she understood that in order to receive fees for advisory services she had to be licensed in the state where her office was located.
64. With regard to financial planning, RFJS’s compliance manual states that “a person must be registered with an investment adviser if he or she holds him or herself out as a financial planner, or in the business of financial planning and is compensated for the service.”

65. Cook's 2001, 2002, and 2004 certification pages showed that she understood that she was responsible for reading and understanding the RJFS compliance manual.

II. CONCLUSIONS OF LAW

66. Cook willfully engaged in dishonest and unethical business practices, warranting sanctions under Section 61-1-6(2)(g) of the Act by:
- (a) borrowing money from a client as proscribed by Rule R164-6-1g(D)(1) of the Utah Administrative Code ("UAC");
 - (b) acting as a trustee of the Family Trust account and three other accounts as proscribed by Rule R164-6-1g(D)(1) of the UAC; and
 - (c) selling away as proscribed by Rule R164-6-1g(D)(2) of the UAC.
67. Cook issued at least two promissory notes and one investment contract, which are securities as defined in Section 61-1-13(1)(x)(I) of the Act. Cook willfully violated Section 61-1-7 of the Act because these securities were not registered with the Division, and were not exempt from such registration.
68. Cook willfully violated Section 61-1-3(3) of the Act and Rule R164-4-2(G)(4)(a) of the UAC by holding herself out as an investment adviser when not licensed as such.
69. Cook willfully violated Section 61-1-5(4) of the Act and Rule R164-4-3(E)(1) of the UAC by failing to disclose her outside business activities and a bankruptcy on her Form U4.

70. Cook's willful misconduct of holding herself out as an investment adviser without being licensed, selling away, borrowing money from a client, taking custody of client moneys, unreported outside business activities, and filing a false Form U4 constitutes an act, practice or course of business which operated as a fraud or deceit, in violation of Section 61-1-1(3) of the Act.

III. ADMISSIONS BY RESPONDENT

71. Cook admits the Division's findings and foregoing violations of the Act.

IV. REMEDIAL ACTION/SANCTIONS

72. Cook shall pay a fine to the Division in the amount of \$100,000 with dollar-for-dollar credit given for any repayment of principal and payment of interest on the July 10, 2000 note which Cook makes to M.W. Any repayment shall be provided to the Division for forwarding to M.W., and shall include a statement identifying the principal and interest amounts paid.
73. Cook agrees to be barred from acting as or associating with any broker-dealer or investment adviser licensed in the state of Utah.

V. FINAL RESOLUTION

74. Cook acknowledges that this Order, upon approval by the Division Director shall be the final compromise and settlement of this matter. Cook further acknowledges that if the

Division Director does not accept the terms of the Order, it shall be deemed null and void and without any force or effect whatsoever.

75. Cook acknowledges that the Order does not affect any civil or arbitration causes of action that third-parties may have against Cook arising in whole or in part from Cook's actions, and that the Order does not affect any criminal cause of action that a prosecutor might bring.
76. This Order constitutes the entire agreement between the parties herein and supersedes and cancels any and all prior negotiations, representations, understandings, or agreements between the parties. There are no verbal agreements which modify, interpret, construe, or otherwise affect this Order in any way.

Utah Division of Securities

Date: 8/22/06
By: G. A. Robison
George Robison
Director of Licensing

Date: Aug. 21, 2006
By: Karon C. Cook
Karon C. Cook

Approved:

Laurie L. Noda
Laurie L. Noda
Assistant Attorney General

ORDER

Based on the foregoing, the Director hereby:

1. Finds that Cook has admitted the factual conduct and the violations described in this Order.
2. Enters as his own findings, the Findings of Fact described in Section I, above.
3. Enters, as his own conclusions, the Conclusions of Law described in Section II, above.
4. Orders that:
 - a. Cook pay a fine to the Division in the amount of \$100,000 with dollar-for-dollar credit given for any repayment of principal and payment of interest on the July 10, 2000 note which Cook makes to M.W. Any repayment shall be provided to the Division for forwarding to M.W., and shall include a statement identifying the principal and interest amounts paid.
 - b. Cook is barred from associating with any broker-dealer or investment adviser licensed in the state of Utah.

DATED this 22nd day of August, 2006.



WAYNE KLEIN
Director, Utah Division of Securities



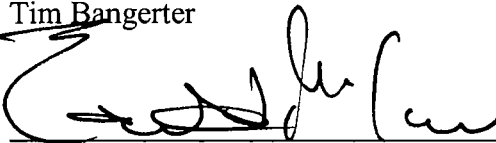
BY THE UTAH SECURITIES ADVISORY BOARD:

The foregoing Order is hereby accepted, confirmed and approved by the Utah Securities
Advisory Board.

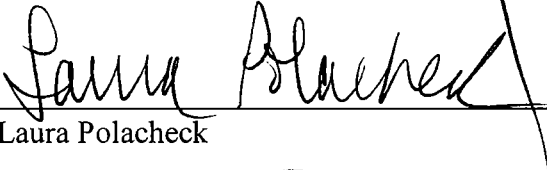
DATED this 1st day of SEPTEMBER, 2006.



Tim Bangerter



Edward L. McCartney



Laura Polacheck



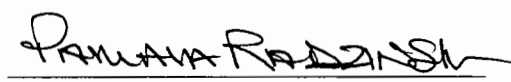
Mark Pugsley

Craig Skidmore

Certificate of Mailing

I certify that on the 5th day of SEPTEMBER 2006, I mailed a true and correct copy of the Stipulation and Consent Order to:

Karon Cook
48 South 500 East
Bountiful, UT 84010


Executive Secretary